

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Fulton Township	County Gratiot
Audit Date 3/31/05	Opinion Date 5/4/05	Date Accountant Report Submitted to State: 8/10/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Abraham & Gaffney, P.C.

Street Address

108 N. Spring St.

City

St. Johns

State

MI

ZIP

48879

Accountant Signature

Abraham & Gaffney, P.C. Aaron M. Jones

Date

8/10/05

**Township of Fulton
Gratiot County, Michigan**

FINANCIAL STATEMENTS

March 31, 2005

Township of Fulton
Gratiot County, Michigan
March 31, 2005
BOARD OF TRUSTEES

Mr. William A. Burnham	Supervisor
Mrs. Diane Ruedger	Clerk
Mrs. Josephine Kissane	Treasurer
Mr. Glen Winsor	Trustee
Mr. Harry Vaughn, Jr.	Trustee

Township of Fulton

TABLE OF CONTENTS

March 31, 2005

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-vii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Net Assets - Proprietary Funds	7-8
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	9-10
Statement of Cash Flows - Proprietary Funds	11-14
Notes to Financial Statements	15-25
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	26
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	27-28
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	29-30

Principals

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Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

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American Institute of Certified
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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Fulton
Perrinton, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Fulton, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Fulton, Michigan as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Township has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of April 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Township of Fulton's basic financial statements. The accompanying other supplementary information, as identified in the Table of Contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

New Financial Reporting

Starting with fiscal year 2005, the Township of Fulton, Michigan (the "Township") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the Township's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Township. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Township's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Township's financial health.

This discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005.

- State shared revenue, our largest revenue source in the General Fund, was reduced by the State of Michigan by approximately \$4,862 last year. This reduction was the result of reduced sales tax revenues collected by the State and changes in the distribution formula used by the State. Over the past few years, the State has overestimated its projected revenues to be shared with local governments.
- Property tax revenues increased approximately \$4,564 from the prior year.
- Total net assets were \$3,028,282. Net assets of \$540,724 and \$2,487,558 were attributable to governmental and business-type activities, respectively.

Using This Annual Report

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-wide Financial Statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Township Of Fulton

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (including depreciation) are not reported on the fund financial statements of the governmental funds. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.

Fund Financial Statements. The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Township in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township of Fulton maintains five (5) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplementary Information section of this report.

The Township adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds. The Township of Fulton maintains three (3) proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses Enterprise Funds to account for its sewer system activity. The *Internal Service* fund, which reports activities that provide supplies or service to the Township's other operations, is reported as a governmental activity on the government-wide statements.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-25 of this report.

Township Of Fulton

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, such as this MD&A and the General Fund budgetary comparison schedule. Combining statements referred to earlier in connection with nonmajor governmental funds are presented as other supplementary information.

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005. A comparative analysis of data will be presented in future years when the information is available.

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total Government</u>
Assets			
Current assets	\$ 366,265	\$ 1,135,478	\$ 1,501,743
Noncurrent assets	<u>182,964</u>	<u>1,542,160</u>	<u>1,725,124</u>
Total assets	549,229	2,677,638	3,226,867
Liabilities			
Current liabilities	8,505	11,475	19,980
Noncurrent liabilities	<u>-</u>	<u>178,605</u>	<u>178,605</u>
Total liabilities	8,505	190,080	198,585
Net Assets			
Invested in capital assets, net of related debt	182,964	695,102	878,066
Restricted	22,307	180,740	203,047
Unrestricted	<u>335,453</u>	<u>1,611,716</u>	<u>1,947,169</u>
Total net assets	<u>\$ 540,724</u>	<u>\$ 2,487,558</u>	<u>\$ 3,028,282</u>

The Township's total net assets were \$3,028,282 on March 31, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$1,947,169 at the end of the fiscal year. The net assets invested in capital assets, net of related debt were at \$878,066. The management's discussion and analysis will present a condensed comparative statement of net assets next year when we have two years of statements in the GASB Statement no. 34 Format.

The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under the requirement of GASB Statement No. 34.

Township Of Fulton

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Revenue			
Program revenue:			
Charges for services	\$ 14,343	\$ 86,629	\$ 100,972
Operating grants and contributions	4,087	-	4,087
Capital grants and contributions	7,430	-	7,430
General revenue:			
Property taxes	58,401	-	58,401
State shared revenue	131,533	-	131,533
Investment earnings	3,513	26,244	29,757
Miscellaneous	<u>6,114</u>	<u>-</u>	<u>6,114</u>
Total revenue	225,421	112,873	338,294
Program Expenses			
General government	127,101	-	127,101
Public safety	25,900	-	25,900
Public works	68,306	-	68,306
Community and economic development	1,606	-	1,606
Other	9,723	-	9,723
Business-type activities	<u>-</u>	<u>152,094</u>	<u>152,094</u>
Total program expenses	<u>232,636</u>	<u>152,094</u>	<u>384,730</u>
Change in Net Assets	<u><u>\$ (7,215)</u></u>	<u><u>\$ (39,221)</u></u>	<u><u>\$ (46,436)</u></u>

Governmental Activities

The Township's governmental revenues totaled \$225,421 with the greatest revenue source being State Revenue Sharing. State Revenue Sharing makes up approximately 58 percent of total governmental revenue. Over the past few years, state shared revenue and interest income have both declined.

The Township incurred expenses of \$232,636 during the year; the majority of governmental expense is associated with providing general governmental services.

Business-type Activities

The Township incurred expenses of \$152,094 during the year to provide sewer services.

The Township's Funds

Governmental Funds. The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township of Fulton's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millage. The Township's major fund for the fiscal year ended March 31, 2005 was the General Fund. The General Fund pays for the most of the Township's governmental services. The most significant service provided during the fiscal year was general governmental services, which incurred expenditures of \$124,917 for the fiscal year.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Township Of Fulton

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

General Fund Budgetary Highlights

Over the course of the fiscal year, the Township Board made necessary budget adjustments to fund unanticipated expenditures during the year. Budget amendments were made to cover unanticipated costs associated with assessor, election, and township hall services and insurance. However, because all departments came in under budget at year-end, there was an overall favorable variance for expenditures of approximately \$21,486 from the budget.

Capital Asset and Debt Administration

Capital Assets. At the end of the fiscal year, the Township had approximately \$1,063,286 invested in a broad range of capital assets, including buildings, land, equipment, and capital assets held by the three sewer systems. In addition, the Township has made certain investments in roads and drains within the Township. These assets are not reported in the Township's fund statements, because under Michigan law, these roads and drains are the property of the Gratiot County Road and Drain Commissions, respectively.

Long-term Debt. The Township issued no new debt during the fiscal year.

Current Economic Factors

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan is experiencing significant budget problems, as they look for solutions, revenue sharing continues to be under attack.

Contacting the Township Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township finances and demonstrates the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Clerk or Treasurer at the Township Hall.

BASIC FINANCIAL STATEMENTS

Township of Fulton

STATEMENT OF NET ASSETS

March 31, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 348,646	\$ 880,835	\$ 1,229,481
Investments	-	200,000	200,000
Receivables	-	46,253	46,253
Internal balances	11,224	(11,224)	-0-
Due from other governmental units	6,345	19,614	25,959
Prepaid expenses	50	-	50
Total current assets	366,265	1,135,478	1,501,743
Noncurrent assets			
Investments	-	413,920	413,920
Special assessments - deferred	-	247,918	247,918
Capital assets, net	182,964	880,322	1,063,286
Total noncurrent assets	182,964	1,542,160	1,725,124
TOTAL ASSETS	549,229	2,677,638	3,226,867
LIABILITIES			
Current liabilities			
Payables	6,317	-	6,317
Accrued liabilities	2,031	-	2,031
Due to other governmental units	-	380	380
Accrued interest payable	-	4,480	4,480
Current portion of compensated absences	157	-	157
Current portion of long-term debt	-	6,615	6,615
Total current liabilities	8,505	11,475	19,980
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	178,605	178,605
TOTAL LIABILITIES	8,505	190,080	198,585
NET ASSETS			
Invested in capital assets, net of related debt	182,964	695,102	878,066
Restricted for:			
Debt service	-	180,740	180,740
Perpetual care	22,307	-	22,307
Unrestricted	335,453	1,611,716	1,947,169
TOTAL NET ASSETS	\$ 540,724	\$ 2,487,558	\$ 3,028,282

See accompanying notes to financial statements.

Township of Fulton

STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 127,101	\$ 11,233	\$ -	\$ (115,868)	\$ -	\$ (115,868)
Public safety	25,900	1,900	-	(24,000)	-	(24,000)
Public works	68,306	-	4,087	(56,789)	-	(56,789)
Community and economic development	1,606	1,210	-	(396)	-	(396)
Other	9,723	-	-	(9,723)	-	(9,723)
Total governmental activities	232,636	14,343	4,087	(206,776)	-0-	(206,776)
Business-type activities:						
Sewer #5	72,098	43,980	-	-	(28,118)	(28,118)
Sewer #6	50,770	35,744	-	-	(15,026)	(15,026)
Pompeii Sewer	29,226	6,905	-	-	(22,321)	(22,321)
Total business-type activities	152,094	86,629	-0-	-0-	(65,465)	(65,465)
Total government	\$ 384,730	\$ 100,972	\$ 4,087	\$ (206,776)	\$ (65,465)	\$ (272,241)
General revenues:						
Property taxes				58,401	-	58,401
State shared revenues				131,533	-	131,533
Investment earnings				3,513	26,244	29,757
Miscellaneous				6,114	-	6,114
Total general revenues				199,561	26,244	225,805
Change in net assets						
Net assets, beginning of the year				(7,215)	(39,221)	(46,436)
Net assets, end of the year				547,939	2,526,779	3,074,718
				\$ 540,724	\$ 2,487,558	\$ 3,028,282

See accompanying notes to financial statements.

Township of Fulton

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2005

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 263,884	\$ 54,444	\$ 318,328
Due from other funds	13,049	-	13,049
Due from other governmental units - local	5,255	1,074	6,329
Prepaid expenditures	50	-	50
TOTAL ASSETS	\$ 282,238	\$ 55,518	\$ 337,756
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Payables			
Accounts	\$ 5,717	\$ -	\$ 5,717
Customer deposits	600	-	600
Accrued liabilities	2,031	-	2,031
Due to other funds	347	2,322	2,669
TOTAL LIABILITIES	8,695	2,322	11,017
FUND BALANCES			
Reserved for:			
Perpetual care	-	22,307	22,307
Debt service	-	21,730	21,730
Unreserved			
Designated for subsequent year's expenditures	14,995	-	14,995
Undesignated, reported in:			
General fund	258,548	-	258,548
Special revenue funds	-	9,159	9,159
TOTAL FUND BALANCES	273,543	53,196	326,739
TOTAL LIABILITIES AND FUND BALANCES	\$ 282,238	\$ 55,518	\$ 337,756

See accompanying notes to financial statements.

Township of Fulton

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2005

Total fund balance - governmental funds \$ 326,739

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 399,179	
Accumulated depreciation is	<u>(216,215)</u>	
Capital assets, net		182,964

Internal Service Funds are used by management to charge the costs
of certain activities to individual funds. The assets and liabilities
of the Internal Service Funds are included in the governmental activities
in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	68,431	
Net capital assets of Internal Service Funds included in the total above	<u>(37,253)</u>	
		31,178

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Compensated absences	<u>(157)</u>
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Net assets of governmental activities	<u><u>\$ 540,724</u></u>
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See accompanying notes to financial statements.

Township of Fulton

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2005

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 58,401	\$ -	\$ 58,401
Licenses and permits	1,170	-	1,170
Intergovernmental	131,533	-	131,533
Charges for services	8,061	-	8,061
Interest and rents	6,575	109	6,684
Other	12,141	7,431	19,572
TOTAL REVENUES	217,881	7,540	225,421
EXPENDITURES			
General government	124,617	300	124,917
Public safety	25,900	-	25,900
Public works	61,991	6,315	68,306
Community and economic development	1,606	-	1,606
Other	9,723	-	9,723
TOTAL EXPENDITURES	223,837	6,615	230,452
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,956)	925	(5,031)
Fund balances, beginning of year	279,499	52,271	331,770
Fund balances, end of year	\$ 273,543	\$ 53,196	\$ 326,739

See accompanying notes to financial statements.

Township of Fulton

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Net change in fund balances - total governmental funds \$ (5,031)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 15,803	
Depreciation	<u>(14,839)</u>	
Excess of capital outlay over depreciation expense		964

Internal service funds are used by management to charge the costs of operating and maintaining equipment to individual funds.

Decrease in net assets of Internal Service Fund	(7,413)	
Capital outlay of Internal Service Fund	(2,894)	
Depreciation of Internal Service Fund	<u>7,187</u>	
		(3,120)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued compensated absences	<u>(28)</u>
--	-------------

Change in net assets of governmental activities \$ (7,215)

See accompanying notes to financial statements.

Township of Fulton
Proprietary Funds
STATEMENT OF NET ASSETS
March 31, 2005

	Business-type		
	Sewer #5	Sewer #6	Pompeii Sewer
ASSETS			
Current assets			
Cash and cash equivalents	\$ 645,217	\$ 178,563	\$ 57,055
Investments	200,000	-	-
Receivables			
Accounts	12,395	9,230	5,588
Special assessments - current	2,827	-	12,767
Interest	3,446	-	-
Due from other funds	6,350	-	-
Due from other governmental units - local	18,463	1,151	-
Total current assets	888,698	188,944	75,410
Noncurrent assets			
Investments	413,920	-	-
Special assessments - deferred	4,640	-	243,278
Advance to other funds	29,117	-	-
Capital assets, net	306,527	186,989	386,806
Total noncurrent assets	754,204	186,989	630,084
TOTAL ASSETS	1,642,902	375,933	705,494
LIABILITIES			
Current liabilities			
Due to other funds	5,748	3,349	8,477
Due to other governmental units - local	380	-	-
Accrued interest payable	-	-	4,480
Current portion of bonds payable	-	-	6,615
Total current liabilities	6,128	3,349	19,572
Noncurrent liabilities			
Noncurrent portion of bonds payable	-	-	178,605
Advance from other funds	-	-	29,117
Total noncurrent liabilities	-0-	-0-	207,722
TOTAL LIABILITIES	6,128	3,349	227,294
NET ASSETS			
Invested in capital assets, net of related debt	306,527	186,989	201,586
Restricted for debt service	-	-	180,740
Unrestricted	1,330,247	185,595	95,874
TOTAL NET ASSETS	<u>\$ 1,636,774</u>	<u>\$ 372,584</u>	<u>\$ 478,200</u>

See accompanying notes to financial statements.

<u>Activities</u>	<u>Governmental Activities</u>
<u>Total</u>	<u>Internal Service Fund (Equipment)</u>
\$ 880,835	\$ 30,318
200,000	-
27,213	-
15,594	-
3,446	-
6,350	844
19,614	16
1,153,052	31,178
413,920	-
247,918	-
29,117	-
880,322	37,253
1,571,277	37,253
2,724,329	68,431
17,574	-
380	-
4,480	-
6,615	-
29,049	-0-
178,605	-
29,117	-
207,722	-0-
236,771	-0-
695,102	37,253
180,740	
1,611,716	31,178
<u>\$ 2,487,558</u>	<u>\$ 68,431</u>

Township of Fulton

Proprietary Funds

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended March 31, 2005

	Business-type		
	Sewer #5	Sewer #6	Pompeii Sewer
OPERATING REVENUES			
Charges for services	\$ 43,980	\$ 35,744	\$ 6,905
Equipment rentals	-	-	-
TOTAL OPERATING REVENUES	43,980	35,744	6,905
OPERATING EXPENSES			
Salaries and wages	12,113	6,128	1,423
Social security	927	469	109
Other fringe benefits	250	250	-
Health insurance	5,022	5,022	-
Workers' compensation	408	204	68
Supplies	426	275	89
Professional services	500	500	331
Utilities	4,439	2,964	1,973
Equipment rental	1,385	365	180
Repairs and maintenance	15,907	17,269	543
Insurance	776	388	32
Depreciation	29,764	16,755	11,775
Other	181	181	120
TOTAL OPERATING EXPENSES	72,098	50,770	16,643
OPERATING LOSS	(28,118)	(15,026)	(9,738)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	36,687	2,145	915
Loss on investments	(13,503)	-	-
Interest and fiscal charges	-	-	(12,583)
TOTAL NONOPERATING REVENUES (EXPENSES)	23,184	2,145	(11,668)
CHANGE IN NET ASSETS	(4,934)	(12,881)	(21,406)
Net assets, beginning of year	1,641,708	385,465	499,606
Net assets, end of year	\$ 1,636,774	\$ 372,584	\$ 478,200

See accompanying notes to financial statements.

<u>Activities</u>	<u>Governmental Activities</u>
<u>Total</u>	<u>Internal Service Fund (Equipment)</u>
\$ 86,629	\$ -
-0-	10,043
86,629	10,043
19,664	-
1,505	-
500	-
10,044	-
680	-
790	3,202
1,331	250
9,376	-
1,930	140
33,719	2,319
1,196	4,599
58,294	7,187
482	-
139,511	17,697
(52,882)	(7,654)
39,747	241
(13,503)	-
(12,583)	-
13,661	241
(39,221)	(7,413)
2,526,779	75,844
<u>\$ 2,487,558</u>	<u>\$ 68,431</u>

Township of Fulton

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended March 31, 2005

	Business-type Activities		
	Sewer #5	Sewer #6	Pompeii Sewer
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 42,821	\$ 36,339	\$ 19,153
Cash paid to employees	(12,113)	(6,128)	(1,423)
Cash paid to suppliers	(29,637)	(27,773)	570
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,071	2,438	18,300
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Payment on advance from other funds	-	-	(1,638)
Payment on advance to other funds	1,638	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	1,638	-0-	(1,638)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital purchases	-	-	-
Payment of bonds payable	-	-	(3,307)
Interest and fiscal charges	-	-	(12,583)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-0-	-0-	(15,890)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	23,184	2,145	915
Maturities of investments	228,244	-	-
Purchases of investments	(314,689)	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(63,261)	2,145	915
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(60,552)	4,583	1,687
Cash and cash equivalents, beginning of year	705,769	173,980	55,368
Cash and cash equivalents, end of year	<u>\$ 645,217</u>	<u>\$ 178,563</u>	<u>\$ 57,055</u>

	Governmental Activities
	Internal Service Fund (Equipment)
Total	
\$ 98,313	\$ 9,821
(19,664)	-
(56,840)	(10,510)
21,809	(689)
(1,638)	-
1,638	-
-0-	-0-
-0-	(2,894)
(3,307)	-
(12,583)	-
(15,890)	(2,894)
26,244	241
228,244	-
(314,689)	-
(60,201)	241
(54,282)	(3,342)
935,117	33,660
<u>\$ 880,835</u>	<u>\$ 30,318</u>

Township of Fulton

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended March 31, 2005

	<u>Business-type Activities</u>		
	<u>Sewer #5</u>	<u>Sewer #6</u>	<u>Pompeii Sewer</u>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	\$ (28,118)	\$ (15,026)	\$ (9,738)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	29,764	16,755	11,775
Decrease in accounts receivable	2,016	595	12,248
(Increase) in due from other funds	(3,175)	-	-
Increase in due to other funds	584	114	4,072
(Decrease) in accrued interest payable	-	-	(57)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 1,071</u></u>	<u><u>\$ 2,438</u></u>	<u><u>\$ 18,300</u></u>

See accompanying notes to financial statements.

	Governmental Activities
	Internal Service Fund (Equipment)
<u>Total</u>	
\$ (52,882)	\$ (7,654)
58,294	7,187
14,859	-
(3,175)	(222)
4,770	-
(57)	-
<u>\$ 21,809</u>	<u>\$ (689)</u>

Township of Fulton
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Fulton, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Gratiot County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and two Trustees and provides services to its residents in many areas including fire protection, sewer, roads, and planning.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Township of Fulton. The Township does not have any activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of Fulton contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The major funds of the Township are:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Sewer #5 Fund is used to account for the operations required to provide sewer services to the areas to the west and north of Rainbow Lake and the Village of Perrinton; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- c. The Sewer #6 Fund is used to account for the operations required to provide sewer services to the Middleton area; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- d. The Pompeii Sewer Fund is used to account for the operations required to provide sewer services to the Village of Pompeii; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Township of Fulton
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

Budgets for General and Special Revenue funds are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the fund financial statements. The Township employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the budget is adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year at the activity level for the General Fund and total expenditure level for the Special Revenue Fund.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, and investment trust fund accounts. The cash and cash equivalents are recorded at cost, which approximates market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value.

7. Receivables

Receivables consist of amounts due from various individuals and businesses related to charges for services.

8. Property Tax

Fulton Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Township of Fulton

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Property Tax - continued

Property taxes are levied twice per year. A summer tax is levied on July 1 and a winter tax is levied on December 1. The tax levies are due September 14 and February 14, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Gratiot County Treasurer on March 1 of the year following the levy. The Gratiot County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for debt service. For the year ended March 31, 2005, the Township levied .8600 mills for general governmental services. The total taxable value for the 2004 levy for property within the Township was \$52,116,842.

9. Interfund Transactions

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

10. Compensated Absences

Township employees are granted vacation leave in varying amounts. In the event of termination, an employee is paid for accumulated compensated absences. All employees with accumulated compensated absences at March 31, 2005 were vested and the total due to them, along with the related payroll taxes, is recorded entirely in the government-wide financial statements.

11. Capital Assets

Capital assets include buildings, equipment, vehicles, and sewer system and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an estimated useful life of more than one year. Capital assets are recorded in the proprietary funds, but not the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Machinery and equipment	3 - 20 years
Furniture and fixtures	5 - 10 years
Buildings and improvements	40 years
Sewer system and improvements	40 years

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Pompeii Sewer

The Pompeii Sewer project, a joint project between Fulton and Washington Townships, is being administered by Fulton Township. The Township is responsible for paying bills related to construction and general operations of the system along with the collecting of sewer usage and special assessment revenue. Fulton Township's share of the activity has been recorded in the Township's financial statements because the system is partially owned by the Township. The Township's percentage share of the system is 66.15 percent.

14. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

15. Accounting Change

As of April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Certain significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided. A reconciliation is presented between the fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$283,959, which were previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Township's capital assets.
- The governmental fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

Township of Fulton

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of March 31, 2005, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 1,229,331	\$ 1,231,205
Certificates of Deposit	<u>200,000</u>	<u>200,000</u>
	<u>\$ 1,429,331</u>	<u>\$ 1,431,205</u>

Township of Fulton
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits - continued

Deposits of the Township are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Township. As of March 31, 2005, the Township accounts were insured by the FDIC for \$200,000, and the amount of \$1,231,205 was uninsured and uncollateralized.

Investments

As of March 31, 2005, the carrying amounts and market values for each type of investment as reported in the investments captions on the financial statements are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Insured or registered for which the securities are held by the Township's agent in the Township's name Federal Home Loan Mortgage Corporation Notes	\$ 413,920	\$ 413,920

The investment in FHLMC notes are not insured but are backed by the full faith and credit of the Federal government.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2005:

Cash and cash equivalents	\$ 1,229,481
Investments - current	200,000
Investments - noncurrent	<u>413,920</u>
	<u>\$ 1,843,401</u>

The cash and cash equivalents captions in the basic financial statements include \$150 in petty cash.

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at March 31, 2005, are as follows:

Due to General Fund from:	
Sewer #5 Fund	\$ 5,403
Sewer #6 Fund	3,229
Pompeii Sewer Fund	2,095
Nonmajor governmental funds	<u>2,322</u>
	<u>\$ 13,049</u>
Due to Sewer #5 from:	
Pompeii Sewer Fund	<u>\$ 6,350</u>

Township of Fulton

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Due to nonmajor governmental funds from:	
General Fund	\$ 347
Sewer #5 Fund	345
Sewer #6 Fund	120
Pompeii Sewer Fund	<u>32</u>
	<u>\$ 844</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details advances receivable and payable between the primary government at March 31, 2005:

Advance to Pompeii Sewer Fund from:	
Sewer #5 Fund	<u>\$ 29,117</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

Governmental activities

	Restated Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005
Capital assets not being depreciated:				
Land	\$ 22,505	\$ -	\$ -	\$ 22,505
Capital assets being depreciated:				
Buildings and improvements	236,632	5,501	-	242,133
Machinery and equipment	119,615	9,647	-	129,262
Furniture and fixtures	<u>4,624</u>	<u>655</u>	<u>-</u>	<u>5,279</u>
Total capital assets being depreciated	360,871	15,803	-0-	376,674
Less accumulated depreciation for:				
Buildings and improvements	(123,460)	(5,998)	-	(129,458)
Machinery and equipment	(73,822)	(8,647)	-	(82,469)
Furniture and fixtures	<u>(4,094)</u>	<u>(194)</u>	<u>-</u>	<u>(4,288)</u>
Total accumulated depreciation	<u>(201,376)</u>	<u>(14,839)</u>	<u>-0-</u>	<u>(216,215)</u>
Net capital assets being depreciated	<u>159,495</u>	<u>964</u>	<u>-0-</u>	<u>160,459</u>
Net capital assets - governmental activities	<u>\$ 182,000</u>	<u>\$ 964</u>	<u>\$ -0-</u>	<u>\$ 182,964</u>

Township of Fulton
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE E: CAPITAL ASSETS - CONTINUED

Governmental activities - continued

Depreciation expense was charged to the following governmental activity:

General government	<u>\$ 14,839</u>
--------------------	------------------

Business-type activities

	Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005
Capital assets being depreciated:				
Sewer system	\$ 2,303,095	\$ -	\$ -	\$ 2,303,095
Equipment	<u>118,119</u>	<u>-</u>	<u>-</u>	<u>118,119</u>
Total capital assets being depreciated	2,421,214	-0-	-0-	2,421,214
Less accumulated depreciation for:				
Sewer system	(1,406,435)	(52,322)	-	(1,458,757)
Equipment	<u>(76,163)</u>	<u>(5,972)</u>	<u>-</u>	<u>(82,135)</u>
Total accumulated depreciation	<u>(1,482,598)</u>	<u>(58,294)</u>	<u>-0-</u>	<u>(1,540,892)</u>
Net capital assets - business-type activities	<u>\$ 938,616</u>	<u>\$ (58,294)</u>	<u>\$ -0-</u>	<u>\$ 880,322</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Township for the year ended March 31, 2005:

	Balance April 1, 2004	Additions	Deletions	Balance March 31, 2005	Amounts Due Within One Year
Governmental Activities					
Compensated absences	\$ 129	\$ 28	\$ -	\$ 157	\$ 157
Business-type Activities					
1996 Revenue Bonds	<u>188,527</u>	<u>-</u>	<u>3,307</u>	<u>185,220</u>	<u>6,615</u>
	<u>\$ 188,656</u>	<u>\$ 28</u>	<u>\$ 3,307</u>	<u>\$ 185,377</u>	<u>\$ 6,772</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

\$320,000 County of Gratiot, Pompeii Community Sanitary Sewer System Bonds. These bonds are split \$211,680 and \$108,320 between Fulton and Washington Township's respectively. Bonds are dated August 1, 1996. Fulton Township's annual installments range from \$3,310 to \$13,230 through May 1, 2022, with interest ranging from 5.1 to 6.0 percent, payable semi-annually.

\$ 185,220

Township of Fulton
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE F: LONG-TERM DEBT - CONTINUED

Year Ending December 31,	1996 Revenue Bonds	
	Principal	Interest
2006	\$ 6,615	\$ 10,584
2007	6,615	10,243
2008	6,615	9,896
2009	6,615	9,542
2010-2014	46,305	57,608
2015-2019	59,535	25,382
2020-2023	<u>52,920</u>	<u>6,350</u>
	<u>\$ 185,220</u>	<u>\$ 129,605</u>

Accrued Sick and Vacation

Individual employees have vested rights upon termination of employment to receive payments for unused sick and vacation time. The dollar amount of these vested rights including related payroll taxes, which have been accrued on the financial statements in the government-wide financial statements, amounted to approximately \$157 at March 31, 2005.

NOTE G: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Township also maintains commercial insurance coverage for workers' compensation.

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the Township has set aside for specific purposes.

The following are the various fund balance reserves as of March 31, 2005:

Debt Service Fund	
Sewer #3	
Reserved for debt service	\$ 21,730
Permanent Fund	
Cemetery Perpetual Care	
Reserved for perpetual care	<u>22,307</u>
	<u>\$ 44,037</u>

The following are the various fund balance designations as of March 31, 2005:

General Fund	
Designated for subsequent year's expenditures	<u>\$ 14,995</u>

Township of Fulton

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of March 31, 2005:

Governmental activities	
Restricted for	
Perpetual care	\$ <u>22,307</u>
Business-type activities	
Restricted for	
Debt service	\$ <u>180,740</u>

NOTE J: BUILDING AND ZONING FINANCIAL INFORMATION

The Township elected to report the financial activities of the building and zoning activity in the General Fund. The following is the required information as it relates to this activity for the year ended March 31, 2005:

REVENUES	
Zoning Permits	\$ 1,170
EXPENDITURES	
Salary and fringes	1,590
Postage	<u>16</u>
TOTAL EXPENDITURES	<u>1,606</u>
EXCESS OF REVENUES	
UNDER EXPENDITURES	<u>\$ (436)</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Fulton

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 58,200	\$ 58,200	\$ 58,401	\$ 201
Licenses and permits	500	500	1,170	670
Intergovernmental	134,370	134,370	131,533	(2,837)
Charges for services	6,050	6,050	8,061	2,011
Interest and rents	5,800	5,800	6,575	775
Other	1,100	1,100	12,141	11,041
TOTAL REVENUES	206,020	206,020	217,881	11,861
EXPENDITURES				
General government				
Township board	11,900	11,900	8,791	3,109
Supervisor	9,900	9,900	8,920	980
Clerk	15,820	15,820	15,572	248
Board of Review	885	885	702	183
Treasurer	26,245	26,245	23,791	2,454
Elections	3,250	3,500	3,495	5
Assessor	12,200	13,500	13,467	33
Building and grounds	19,000	20,500	16,925	3,575
Cemetery	38,000	34,750	32,954	1,796
Total general government	137,200	137,000	124,617	12,383
Public safety				
Fire	26,000	26,000	25,900	100
Public works				
Drains	7,500	7,500	6,040	1,460
Highways, streets, and bridges	62,848	62,848	55,951	6,897
Total public works	70,348	70,348	61,991	8,357
Community and economic development				
Zoning	1,875	1,875	1,606	269
Other				
Insurance and fringe benefits	9,900	10,100	9,723	377
TOTAL EXPENDITURES	245,323	245,323	223,837	21,486
EXCESS OF REVENUES (UNDER) EXPENDITURES	(39,303)	(39,303)	(5,956)	33,347
Fund balances, beginning of year	279,499	279,499	279,499	-0-
Fund balances, end of year	\$ 240,196	\$ 240,196	\$ 273,543	\$ 33,347

OTHER SUPPLEMENTARY INFORMATION



Township of Fulton
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
March 31, 2005

	<u>Special Revenue</u>		<u>Debt Service</u>
	<u>Middleton Street Lighting</u>	<u>Pompeii Street Lighting</u>	<u>Sewer #3</u>
ASSETS			
Cash and cash equivalents	\$ 4,913	\$ 5,494	\$ 21,730
Due from other governmental units - local	894	180	-
TOTAL ASSETS	<u>\$ 5,807</u>	<u>\$ 5,674</u>	<u>\$ 21,730</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ 1,995	\$ 327	\$ -
FUND BALANCES			
Reserved for perpetual care	-	-	-
Reserved for debt service	-	-	21,730
Unreserved - undesignated	3,812	5,347	-
TOTAL FUND BALANCES	<u>3,812</u>	<u>5,347</u>	<u>21,730</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,807</u>	<u>\$ 5,674</u>	<u>\$ 21,730</u>

<u>Permanent</u>		<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Perpetual Care</u>		
\$ 22,307	\$ 54,444	
-	1,074	
<u>\$ 22,307</u>	<u>\$ 55,518</u>	
\$ -	\$ 2,322	
22,307	22,307	
-	21,730	
-	9,159	
<u>22,307</u>	<u>53,196</u>	
<u>\$ 22,307</u>	<u>\$ 55,518</u>	

Township of Fulton

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended March 31, 2005

	<u>Special Revenue</u>		<u>Debt Service</u>
	<u>Middleton Street Lighting</u>	<u>Pompeii Street Lighting</u>	<u>Sewer #3</u>
REVENUES			
Interest	\$ -	\$ -	\$ 109
Other			
Special assessments	<u>5,799</u>	<u>1,632</u>	<u>-</u>
TOTAL REVENUES	5,799	1,632	109
EXPENDITURES			
General Government	100	100	100
Public works	<u>5,350</u>	<u>965</u>	<u>-</u>
TOTAL EXPENDITURES	<u>5,450</u>	<u>1,065</u>	<u>100</u>
EXCESS OF REVENUES OVER EXPENDITURES	349	567	9
Fund balance, beginning of year	<u>3,463</u>	<u>4,780</u>	<u>21,721</u>
Fund balance, end of year	<u>\$ 3,812</u>	<u>\$ 5,347</u>	<u>\$ 21,730</u>

<u>Permanent</u>	
<u>Cemetery</u>	<u>Total</u>
<u>Perpetual Care</u>	<u>Nonmajor</u>
	<u>Governmental</u>
	<u>Funds</u>
\$ -	\$ 109
-	7,431
-0-	7,540
-	300
-	6,315
-0-	6,615
-0-	925
22,307	52,271
<u>\$ 22,307</u>	<u>\$ 53,196</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

MANAGEMENT LETTER

To the Members of the Township Board
Township of Fulton
Perrinton, Michigan

Dear Ladies/Gentlemen:

As you know, we recently completed our audit of the records of the Township of Fulton, Michigan for the year ended March 31, 2005. In connection with the audit, we feel that a certain change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is the result of our evaluation of the internal control structure and our discussions with management.

The Township Board should adopt a formal written policy for capital asset management.

During discussions with management, we noted that the Township Board has not formally implemented written procedures and policies for capital asset management. We believe that by documenting specific policies, contractual employees will have a clearer understanding of the organization's expectations. We also believe that such documentation will provide greater internal control.

We suggest that the Board adopt a policy for the capitalization and disposal of capital assets. The policy should specify criteria for capitalizing assets, including the per unit dollar value threshold to be used. Items below the threshold established by the Board may be expensed as they are purchased. The policy should also specify that the disposal of capital assets requires formal approval by the Township Board. Such approval should be documented in the minutes of the Board meetings.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated May 4, 2005.

This report is intended solely for the use of management and the Township Board of the Township of Fulton, Michigan and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 4, 2005

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